

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01

SPC-03 SS-20 USIA-15 ACDA-19 IO-14 EB-11 CIEP-02

TRSE-00 STR-08 OMB-01 CEA-02 INT-08 COME-00 DRC-01

/203 W

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R 141131Z NOV 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 3795

INFO AMEMBASSY PARIS

AMEMBASSY SAIGON

AMEMBASSY BANGKOK

AMEMBASSY SINGAPORE

CINCPAC

COMUSMACTHAI

COMUSSAG

DAO SAIGON

C O N F I D E N T I A L PHNOM PENH 12499

FOR STATE/AID

PARIS PASS OLMSTED, ECONOMIC COUNSELOR, PHNOM PENH

E. O. 11652: GDS

TAGS: EFIN, ENRG, MILI, CB

SUBJECT: ECONOMIC POLICY AND PROBLEMS: POL

REF: PHNOM PENH 12193

1. ON NOVEMBER 12 ACTING ECONOMIC COUNSELOR AND SELECTED STAFF
HELD A MEETING WITH KHY TAING LIM, MINISTER OF STATE IN CHARGE
OF PLANNING AND ECONOMIC COORDINATION; SAPHON SARASY, MINISTER
OF COMMERCE; AND THONN OUK OF TELA KHMER TO DISCUSS POL PRICING
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AND RATIONING IN LIGHT OF THE RAPIDLY CHANGING SUPPLY SITUATION.

2. WE PRESENTED A TALKING PAPER THAT CONTAINED THE FOLLOWING RECOMMENDATIONS:

A. INCREASE THE PUMP PRICE OF ALL POL PRODUCTS TO REFLECT HIGHER CIF COST AND EXCHANGE RATE CHANGES SINCE THE LAST PRICE ADJUSTMENTS, JULY 4, 1973. THE PRICES RECOMMENDED WERE AS FOLLOWS (EXCLUDING JP1 FOR WHICH WE DID NOT HAVE THE RELEVANT DATA):

	CURRENT	RECOMMENDED	0/0 INCREASE
GASOLINE	28	70	150
KEROSENE	18	45	150
GAS OIL	18	45	150
DIESEL OIL	17	42	147
FUEL OIL	12	30	150

B. ABOLISH THE CURRENT DOMESTIC TAX STRUCTURE (6 TAXES AND A NEGATIVE PEREQUATION) IN FAVOR OF A SINGLE AD VALOREM TAX ON THE CIF PHNOM PENH VALUE;

C. REVENUE FROM THE AD VALOREM TAX SHOULD NOT BE LESS THAN WHAT THE OLD STRUCTURE WOULD PRODUCE WITH A ZERO PER-EQUATION (APPROXIMATELY 3.6 BILLION RIELS);

D. INSTITUTE A MONTHLY AUTOMATIC ADJUSTMENT SYSTEM THAT IN PRINCIPLE WAS AGREED TO LAST JUNE IN DISCUSSIONS WITH THE EMBASSY AND IMF; THE SYSTEM WOULD BE BASED ON INTERNATIONAL POSTED POL PRICES AND EXCHANGE RATE CHANGES;

E. REDUCE CONSUMPTION BY ESTABLISHING AN EFFECTIVE RATIONING SYSTEM ON BOTH THE MILITARY AND CIVILIAN SIDES;

F. RATIONING SHOULD START IMMEDIATELY AND PRICE ADJUSTMENT SHOULD BE MADE BY DECEMBER 1.

3. KHY TAING LIM UNDERSTOOD THE PRICE INCREASES WERE NECESSARY AND HE SAW NO PROBLEM WITH GASOLINE PRICES. HOWEVER, THERE WERE SOCIAL AND POLITICAL PROBLEMS WITH SUCH LARGE INCREASES ON THE OTHER ITEMS. HE RECOGNIZED THAT ELECTRICITY RATES WOULD HAVE TO INCREASE AS WELL AS LOCALLY PRODUCED PRODUCTS. WE POINTED OUT THAT THIS WAS THE SITUATION WORLDWIDE AND THAT NOW WAS THE MOST PROPITIOUS TIME TO ACT BECAUSE EXTERNAL FORCES COULD BE CITED FOR THE REASON INCREASES WERE NECESSARY.

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4. SINCE THE RECOMMENDATION FOR A SINGLE AND VALOREM TAX ON EACH PRODUCT WAS ACCEPTED BY KHY TAING LIM, WE MADE IT CLEAR THE FINAL PUMP PRICE WOULD BE DETERMINED PRIMARILY BY WHAT TAX RATE WAS CHOSEN. WE SHOWED THAT WITH SLIGHTLY LOWER RATES THAN IN OUR ORIGINAL RECOMMENDATION, POL PRICE SOTHER THAN GASOLINE COULD BE LOWERED WITHOUT GREATLY AFFECTING TOTAL REVENUES. THIS EXAMPLE HAD THE FOLLOWING PRICE STRUCTURE:

GASOLINE	70
KEROSENE	39
GAS OIL	IL 41
DIESEL	39
FUEL OIL	26

WITH ESTIMATED ANNUAL REVENUES OF 3,350 MILLION RIELS OR 370 MILLION LESS THAN IN OUR RECOMMENDED PRICES.

5. THE MONTHLY AUTOMATIC ADJUSTMENT SYSTEM WAS AT FIRST ACCEPTED. HOWEVER, WHEN I BECAME CLEAR THAT THE GOVERNMENT WOULD NO LONGER HAVE APPROVAL OF THE PRICES WITH THIS SYSTEM, THERE WAS A DEFINITE CHANGE IN ATTITUDE. NEITHER OF THE MINISTERS BELIEVED THAT THE COUNCIL OF MINISTER WOULD APPROVE THIS MEASURE.

6. RATIONING ON THE CIVILIAN SIDE PRESENTED NO PROBLEM TO THE MINISTERS. THEY UNDERSTOOD IT WAS CONNECTED TO THE DESIRE TO BUILD UP STOCKS (SEE REFTEL) AS WELL AS TO LIMIT UTILIZATION DURING PERIOD OF REDUCED SUPPLY. IT WAS AGREED TO GO INTO EFFECT IMMEDIATELY UPON DETERMINATION BY TELA KHMER, IN CONCURRENCE WITH THE EMBASSY, OF HOW MUCH TO REDUCE DISTRIBUTION TO THE STATIONS. IN CONJUNCTION WITH THIS, THE MINISTER OF COMMERCE WOULD ANNOUNCE THE SAME REDUCTION IN VALUE OF THE ISSUED COUPONS.

7. KHY TAING LIM REQUESTED COMPARABLE PRICES IN SAIGON WHICH WE SAID WE WOULD OBTAIN. HE STATED THAT HE WOULD STUDY AND COORDINATE ACTION WITHIN THE GOVERNMENT, POSSIBLY HOLDING A FURTHER DISCUSSION WITH US PRIOR TO BRINGING THE MATTER TO THE ATTENTION OF THE COUNCIL OF MINISTERS. HE INDICATED THAT ACTION COULD BE TAKEN BY DECEMBER 1.

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8. FYI: IMF RESIDENT ADVISOR EVERS INFORMED US, JUST PRIOR TO HIS DEPARTURE FOR THE PARIS CONFERENCE, THAT HE ALSO WAS PREPARING A PAPER ON POL. HE DID NOT COORDINATE WITH US ON THIS ALTHOUGH HE WAS INFORMED THAT THERE HAD BEEN SIGNIFICANT CHANGES IN INTERNATIONAL PRICES. TELA KHMER HAS RECEIVED A COPY OF HIS PAPER AND BRIEFLY DESCRIBED IT TO US INCLUDING RECOMMENDATIONS ON PRICES, AD VALOREM TAXES, AND AN AUTOMATIC PRICE ADJUSTMENT SYSTEM. THE PRICING RECOMMENDATION WAS BASED ON CIF VALUES FROM LAST JULY ALTHOUGH THESE VALUES HAVE NOW INCREASED BY AT LEAST 50 0/0. WE ARE UNCERTAIN AS TO WHAT RATES HE PROPOSED FOR THE AD VALOREM TAX, BUT AT LEAST WE BOTH HAVE AGREED ON THAT KIND OF SYSTEM. HE RECOMMENDED THAT THE AUTOMATIC ADJUSTMENT OCCUR EVERY TWO MONTHS. IT APPEARS THAT HIS POSITION WAS NOT AS FORECFUL AS OURS WHICH MAY BE DUE TO HIS UNFAMILIARITY WITH THE

R DETAILS OF THE RAPIDLY CHANGING INTERNATIONAL SCENE. WE
WILL TRY TO OBTAIN A COPY OF HIS PAPER. END FYI.

9. SUBSEQUENT TO DRAFTING THE ABOVE, WE HAVE JUST BEEN
INFORMED THAT A MEETING ON THE POL ISSUES DESCRIBED HEREIN
WILL BE HELD THIS MORNING. THIS MEETING WILL BE ATTENDED BY
A TOTAL OF SEVEN MINISTERS AND TELA KHMER. WE WILL REPORT
FURTHER WHEN WE OBTAIN DETAILS OF THE MEETING.
ENGLE

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